MAY 26, 1986

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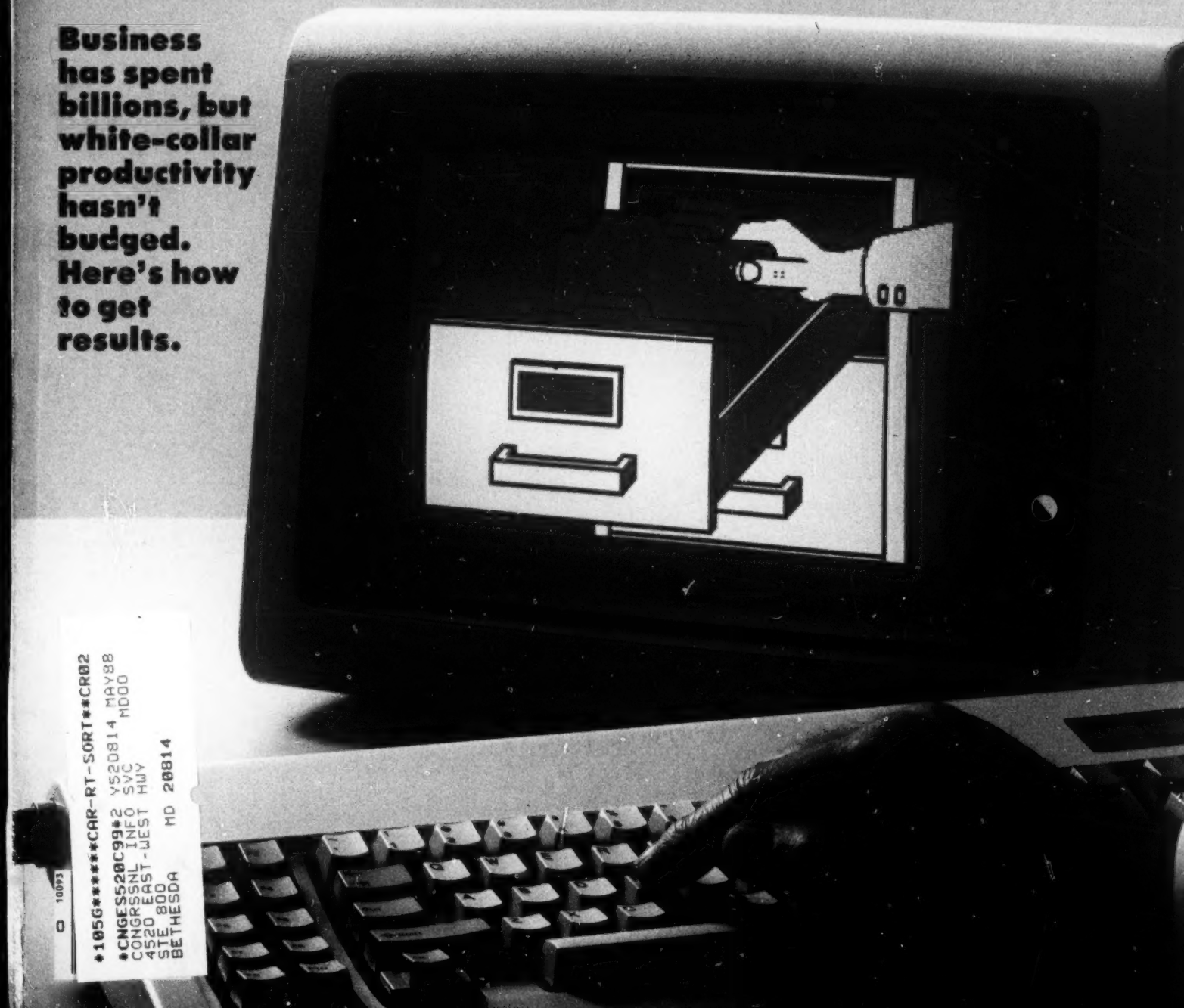
FORTUNE

AMERICA'S POOR
HOW BIG A PROBLEM?

THE PUNY PAYOFF FROM OFFICE COMPUTERS

Business has spent billions, but white-collar productivity hasn't budged. Here's how to get results.



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MAY 26, 1986 VOL. 113, NO. 11

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In Ulf Skogsbergh's cover photo, a computer screen shows Joe Lertola's graphic of office work done the old-fashioned way. *See page 20.*

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LETTERS TO FORTUNE

Correction

Because of a computer programming error, total returns to investors in FORTUNE*'s Directory of the 500 Largest U.S. Industrial Corporations (April 28) were understated for the majority of companies. The corrected percentages are below.*

The table accompanying the 500 listings that showed the ten highest-ranking companies in total return to investors, 1975-85, should have included Wang Laboratories in eighth place and ConAgra in ninth, displacing Advanced Micro Devices and Telex from the list. The table showing the five lowest companies in 1985 should have included Wheeling-Pittsburgh Steel in fifth place, displacing Control Data.

In this corrected listing, companies are numbered by their sales rank among the FORTUNE *500. Only those for which incorrect figures were given are listed; in some cases, only the 1985 or the ten-year figure changes. The 1985 figures are first, in Roman type. The ten-year average annual figures follow in italics. Negative returns are in parentheses.*

The correct numbers will be listed in reprints combining the FORTUNE *500 and the Service 500, which are distributed in late summer to the listed companies and sold by* FORTUNE.

We regret the error.

---

1. GM (3.96) *9.82*; **2.** Exxon 31.07 *18.11*; **3.** Mobil 20.08 *17.30*; **4.** Ford 35.34 *15.81*; **5.** IBM 30.54 *15.91*; **6.** Texaco (4.27) *10.99*; **7.** Chevron 30.55 *16.80*; **8.** AT&T 35.71 *6.43*; **9.** Du Pont 44.51 *11.12*; **10.** GE 33.13 *17.13*; **11.** Amoco 25.78 *17.36*; **12.** Atl. Rich. 54.19 *16.35*; **13.** Chrysler 49.89 *19.05*; **15.** U.S. Steel 6.12 *0.99*; **16.** United Tech. 24.71 *19.42*; **17.** Phillips Petroleum (4.11) *9.16*; **18.** Tenneco 12.78 *11.44*; **19.** Occidental 20.28 *16.89*; **20.** Sun 17.61 *20.46*; **21.** Boeing 41.26 *35.75*; **22.** P&G 28.00 *8.98*; **23.** R.J. Reynolds 14.15 *16.70*; **24.** Std. Oil 26.04 *15.75*; **25.** ITT 33.38 *12.87*; **26.** Beatrice 73.65 *12.92*; **27.** Philip Morris 14.83 *17.04*; **28.** Dow Chem. 57.37 *3.97*; **29.** McDonnell Douglas 5.32 *20.29*; **30.** Rockwell 21.14 *25.92*; **31.** Unocal (23.70) *14.09*; **32.** Westinghouse 75.64 *27.16*; **33.** Eastman Kodak 11.64 *1.09*; **34.** Dart & Kraft 59.72 *18.50*; **35.** Goodyear 27.19 *10.73*; **36.** Lockheed 13.33 *34.82*.

37. Allied-Signal 39.99 *13.16*; **39.** Union Carbide 106.95 *8.05*; **40.** Xerox 68.36 *7.03*; **41.** PepsiCo 73.56 *16.36*; **42.** Gen'l Dynamics 0.27 *26.72*; **43.** LTV *(3.07)*; **44.** Coca-Cola 41.02 *12.99*; **45.** Sara Lee 66.27 *24.16*; **46.** Ashland Oil 63.29 *18.29*; **47.** 3M 19.20 *9.50*; **48.** Amerada Hess 16.41 *17.81*; **49.** W.R. Grace 28.48 *13.83*; **50.** Coastal 110.36 *28.59*; **51.** Anheuser-Busch 78.91 *17.64*; **52.** Caterpillar 37.50 *2.48*; **53.** Monsanto 14.42 *7.75*; **54.** Georgia-Pacific 9.61 *3.79*; **56.** Honeywell 20.86 *20.19*; **57.** TRW 26.14 *17.51*; **58.** Hewlett-Packard 9.28 *12.62*; **59.** Johnson & Johnson 49.86 *8.45*; **60.** Raytheon 38.23 *20.13*; **61.** Ralston 34.56 *16.12*; **62.** Champion Int'l 14.06 *7.67*; **63.** Sperry 36.10 *7.43*; **64.** Gen'l Mills 41.39 *13.13*; **65.** ConAgra 59.22 *43.12*; **66.** Motorola 17.39 *13.28*; **67.** IC 39.38 *24.24*; **68.** Weyerhaeuser 10.37 *1.75*; **69.** Alcoa 7.68 *11.78*; **70.** Bethlehem (9.07) *(2.51)*; **71.** Northrop 28.50 *32.33*.

72. Burroughs 16.56 *1.13*; **73.** Colgate 38.19 *7.16*; **74.** Textron 50.70 *15.89*; **75.** Texas Instr. (9.96) *2.92*; **76.** ADM 43.81 *10.03*; **77.** Borden 66.39 *21.12*; **78.** Amer. Brands 8.97 *21.56*; **79.** Amer. Home Prod. 30.60 *11.94*; **80.** Pillsbury 42.13 *16.88*; **81.** Emerson Elect. 21.16 *13.10*; **82.** Litton 31.83 *32.91*; **83.** IP (1.16) *3.62*; **84.** Bristol-Myers 30.52 *18.28*; **85.** Martin Marietta 22.77 *28.06*; **86.** No. Amer. Philips (0.51) *19.40*; **88.** PPG 61.25 *21.86*; **89.** NCR 55.42 *24.44*; **90.** CPC 34.15 *15.25*; **91.** Dresser 3.51 *4.34*; **92.** Armco *(1.79)*; **93.** Diamond Shamrock (11.80) *(0.19)*; **94.** Kimberly-Clark 46.79 *20.15*; **96.** Deere 0.13 *5.55*; **97.** Heinz 55.55 *24.53*; **99.** Pfizer 23.63 *17.75*; **100.** Campbell Soup 47.25 *16.99*; **101.** Borg-Warner 20.04 *23.37*; **102.** Firestone 46.29 *6.17*; **103.** Dana 7.36 *13.23*; **104.** Int'l Harvester *(6.06)*; **105.** Boise Cascade 20.90 *12.09*; **106.** Control Data (39.42) *10.31*; **107.** Eaton 23.59 *17.75*.

108. Owens-Ill. 36.01 *12.82*; **109.** Cyanamid 19.32 *14.43*; **110.** Merck 50.28 *10.31*; **111.** Quaker Oats 54.43 *20.89*; **112.** Whirlpool 10.82 *12.18*; **113.** Reynolds Met. 15.89 *10.81*; **114.** Time 47.96 *20.38*; **115.** Amer. Standard 34.41 *23.55*; **116.** Abbott Labs 67.87 *23.76*; **117.** Kerr-McGee 26.62 *2.56*; **118.** Owens-Corning 21.93 *9.75*; **119.** Eli Lilly 75.08 *12.30*; **120.** FMC 20.19 *17.94*; **121.** SmithKline 51.06 *21.90*; **122.** Teledyne 34.30 *43.01*; **123.** Goodrich 27.92 *12.58*; **124.** United Brands 158.68 *19.66*; **125.** Warner-Lambert 41.85 *7.86*; **126.** Inland Steel (1.13) *(0.61)*; **127.** Comb. Eng. 1.23 *16.50*; **128.** Crown Zellerbach 25.04 *6.60*; **129.** Cooper Ind. 55.15 *17.73*; **130.** Scott Paper 50.55 *18.50*; **131.** Grumman 20.59 *22.26*; **132.** Celanese 92.00 *20.31*; **133.** Avon 38.03 *4.84*; **134.** GenCorp. 112.63 *23.19*; **135.** Times Mirror 46.67 24.16; **136.** Chesebrough-Pond's 33.54 *8.29*; **137.** Staley 32.57 *8.49*; **138.** Kellogg 79.31 *18.80*.

139. Swift 3.17; **140.** Amer. Can 25.01 *14.78*; **141.** Burlington 33.15 *7.99*; **142.** Mead 33.46 *20.14*; **143.** Kaiser Alum. 17.36 *6.85*; **145.** Ingersoll-Rand 23.68 *2.69*; **146.** Interco 24.49 *11.71*; **147.** Hercules 21.61 *9.02*; **150.** Fruehauf 14.57 *13.60*; **152.** USG 77.84 *27.46*; **153.** James River 40.44 *35.68*; **154.** Revlon 68.55 *8.14*; **155.** Kidde 24.65 *19.56*; **156.** Singer 45.02 *17.66*; **157.** Amer. Petrofina (22.55) *10.17*; **158.** Gillette 27.97 *13.86*; **159.** Lear Siegler 13.80 *28.54*; **160.** Baxter Travenol 22.92 *6.06*; **161.** Wang Labs (23.70) *44.41*; **163.** Harris 3.81 *15.05*; **165.** Engelhard (10.94); **166.** Jim Walter 42.81 *8.85*; **167.** Pennzoil 84.23 *26.41*; **168.** Cabot (0.87) *27.86*; **169.** Murphy Oil 17.35 *21.12*; **170.** Sherwin-Williams 62.95 *22.26*; **171.** Allegheny (7.68) *6.59*; **172.** SCM 77.03 *27.21*; **173.** Gannett 33.86 *19.14*; **174.** Cummins (4.31) *18.70*; **176.** Upjohn 95.73 *16.15*; **179.** Rohm & Haas 23.79 *14.34*.

180. Squibb 52.56 *12.92*; **181.** R.R. Donnelley 32.52 *23.65*; **182.** Hershey 37.57 *24.59*; **183.** AMAX (15.66) *(5.04)*; **184.** Nat'l Dist. & Chem. 44.73 *16.70*; **185.** Morton Thiokol 36.92 *28.21*; **186.** White Consol. 27.76 *12.07*; **187.** Tribune 64.92; **188.** Great Northern Nekoosa 22.74 *16.39*; **189.** Schering-Plough 67.34 *5.12*; **190.** Libbey-Owens-Ford 12.89 *14.42*; **192.** Mapco 49.75 *4.67*; **193.** Baker 13.28 *6.56*; **194.** Paccar 9.32 *28.51*; **195.** Olin 29.46 *14.89*; **197.** Ogden 24.58 *21.02*; **198.** Manville 2.13 *(8.38)*; **199.** Hammermill 19.09 *19.15*; **200.** Union Camp 17.43 *10.17*; **201.** J.P. Stevens 87.58 *15.12*; **202.** Sterling Drug 35.21 *12.14*; **203.** Colt 26.21 *27.24*; **204.** Pitney Bowes 40.58 *26.16*; **205.** Air Prod. 42.79 *8.83*; **206.** Anderson Clayton 61.63 *17.33*; **207.** Koppers 21.84 *7.13*; **208.** Gen'l Signal 2.76 *14.21*; **210.** Johnson Controls 23.83 *27.68*; **211.** Emhart 15.47 *21.39*; **212.** Black & Decker (5.55) *2.51*.

213. Knight-Ridder 39.41 *21.44*; **214.** Nat'l Gypsum 79.16 *26.42*; **215.** Westvaco 17.90 *16.41*; **216.** Triangle Ind. 317.42 *24.59*; **217.** Corning Glass 84.88 *14.66*; **219.** Armstrong 37.36 *12.08*; **220.** Texas Oil & Gas (12.97) *29.72*; **223.** AMP 10.28 *17.42*; **224.** Int'l Minerals & Chem. (0.04) *10.28*; **225.** Zenith *1.85*; **226.** CBI (16.34) *0.32*; **229.** Ethyl 74.70 *27.60*; **231.** Brunswick 32.20 *28.20*; **233.** Gould 48.94 *10.81*; **234.** Tosco *4.90*; **235.** Hormel 72.99 *24.65*; **237.** McGraw-Hill 15.74 *26.89*; **239.** VF 100.65 *30.46*; **240.** Crown Central *16.08*; **241.** Monfort 61.18 *17.21*; **242.** Parker Hannifin 26.31 *19.32*; **243.** Witco 23.48 *21.97*; **244.** Dover 20.63 *24.89*; **245.** Tektronix (0.93) *11.21*; **246.** NL 24.80 *12.11*; **247.** Square D 13.91 *13.54*; **248.** N.Y. Times 29.39 *32.45*; **249.** Cyclops 45.19 *23.97*; **252.** Pacific Resources *20.14*; **253.** Ft. Howard Paper 69.71 *24.25*; **256.** Perkin-Elmer 20.78 *13.80*; **257.** Polaroid 60.60 *6.67*.

258. Sundstrand 27.18 *16.60*; **259.** Coors 37.02 *0.15*; **260.** Fleetwood (5.86) *16.57*; **261.** NVF *0.11*; **263.** Federal Co. 74.43 *24.66*; **264.** Harsco 50.24 *21.71*; **265.** Hughes Tool 0.78 *1.63*; **266.** Louisiana-Pacific 8.68 *12.41*; **270.** Stone Container 23.85 *24.57*; **272.** Hasbro 60.83 *59.07*; **273.** Louisiana Land 0.66 *9.87*; **274.** Int'l Multifoods 64.19 *19.09*; **275.** Stanley Works 27.92 *20.44*; **276.** West Pt.-Pepperell 27.40 *16.57*; **277.** Norton 13.74 *17.41*; **278.** Nat'l Service Ind. 48.65 *29.93*; **280.** Heileman Brewing 19.06 *35.16*; **281.** Asarco *6.43*; **283.** EG&G 22.91 *28.80*; **284.** Masco 46.26 *15.69*; **285.** Willamette Ind. 53.01 *13.96*; **286.** Becton Dickinson 60.34 *7.23*; **287.** Ex-Cell-O 4.62 *23.96*; **288.** Tyson Foods 91.57 *46.51*; **290.** Certain-Teed 24.76 *9.14*; **291.** Hartmarx 43.95 *22.76*; **292.** Ball 40.71 *26.28*; **293.** Rexnord 24.27 *10.16*; **294.** Crane 39.59 *14.07*; **295.** Timken (10.14) *7.03*.

296. Washington Post 49.29 *38.30*; **297.** Magic Chef 53.16 *28.40*; **298.** Clorox 71.55 *21.04*; **299.** Pennwalt 16.24 *11.30*; **302.** Collins & Aikman 68.50 *24.69*; **303.** Dow Jones 15.23 *25.48*; **304.** Dean Foods 58.96 *45.08*; **305.** Brockway 71.53 *11.70*; **306.** Cap. Cities 36.51 *26.93*; **307.** Springs Ind. 36.02 *21.76*; **308.** Gen'l Instr. 11.06 *22.52*; **309.** Vulcan 35.75 *25.07*; **310.** Quaker State 39.18 *11.88*; **311.** Varian Assoc. (22.70) *18.83*; **312.** Gen'l Cinema 46.25 *26.44*; **313.** Clark Equip. 5.54 *5.45*; **314.** Cluett Peabody 47.93 *23.75*; **315.** Allis-Chalmers *(7.36)*; **316.** Potlatch 36.54 *8.56*; **317.** E-Systems 25.79 *33.14*; **318.** Lafarge 2.60; **319.** Avery 15.75 *13.22*; **320.** A.O. Smith 75.81 *16.99*; **322.** Gerber 77.88 *20.55*; **323.** Brown-Forman 54.45 *27.07*; **324.** Fuqua 19.37 *36.97*; **325.** Idle Wild Foods 12.36; **327.** Amer. Greetings 7.26 *25.76*; **328.** Sheller-Globe 12.84 *16.00*; **329.** Fairchild Ind. (33.77) *20.34*.

330. Chromalloy Amer. *9.38*; **331.** Mitchell Energy (13.76) *23.92*; **332.** Tyler 3.13 *23.26*; **333.** Dayco 22.31 *12.84*; **334.** Bowater 24.16; **335.** Lubrizol 37.88 *7.92*; **338.** Federal-Mogul 29.02 *26.89*; **340.** Phelps Dodge *(1.65)*; **341.** Sanders Assoc. (2.61) *28.33*; **342.** Sun Chem. 29.77 *28.21*; **344.** Outboard Marine 0.77 *12.25*; **345.** McCormick 9.86 *10.65*; **346.** Lone Star 26.18 *15.23*; **347.** Sonoco 61.09 *24.99*; **348.** Amdahl 10.91; **349.** Interlake 23.07 *15.32*; **350.** M/A-Com (21.12) *26.94*; **351.** Big Three 28.17 *9.24*; **352.** Champion Spark Plug 22.12 *4.43*; **353.** Tecumseh 36.31 *22.01*; **354.** Reichhold Chem. 4.15 *15.45*; **355.** Arvin Ind. 53.63 *23.15*; **356.** Harcourt Brace Jovanovich 68.90 *25.97*; **357.** Insilco 20.43 *21.74*; **358.** MEI 3.32 *38.69*; **359.** Figgie 80.30 *23.57*; **360.** Joy Mfg. (0.37) *5.72*; **361.** United Merchants *3.46*; **362.** Bemis 74.43 *26.85*; **363.** Federal Paper Board (1.09) *17.50*.

365. Echlin 18.21 *12.70*; **367.** Armstrong Rubber (12.31) *20.60*; **368.** Deluxe Check Printers 68.40 *26.17*; **369.** Midland-Ross 8.30 *13.82*; **370.** Mohasco 37.44 *10.14*; **371.** Bell & Howell 19.08 *15.04*; **372.** Nucor 68.67 *37.56*; **373.** Cincinnati Milacron (12.45) *22.94*; **374.** GAF 142.21 *23.32*; **375.** Newmont Mining 34.31 *11.82*; **376.** Economics Lab. 57.95 *9.29*; **377.** Freeport-McMoRan 10.74 *18.03*; **378.** Anchor Hocking 38.52 *12.43*; **379.** Briggs & Stratton 10.29 *8.43*; **380.** Consolidated Papers 54.32 *31.53*; **381.** Scott & Fetzer 5.99 *18.67*; **382.** A.H. Robins *3.42*; **384.** Amsted Ind. 21.75 *17.28*; **385.** Worthington Ind. 46.83 *35.06*; **386.** Southwest Forest Ind. *9.25*; **387.** Smith Int'l (33.53) *(4.71)*; **390.** Maytag 84.17 *17.01*; **391.** Nalco Chem. 5.89 *10.27*; **393.** Macmillan 66.38 *39.20*; **394.** Raychem 69.69 *12.75*; **395.** Tyco Labs 41.70 *27.60*; **397.** Rubbermaid 58.39 *21.68*; **399.** Dennison Mfg. 26.22 *25.31*.

401. Ferro 37.31 *13.05*; **403.** Eagle-Picher 32.44 *13.89*; **404.** Dexter 39.60 *22.74*; **405.** Jefferson Smurfit 47.23; **406.** Savannah Foods 82.67 *33.56*; **407.** Flowers Ind. 43.20 *37.42*; **408.** Sealed Power 11.35 *22.55*; **410.** Nashua *15.13*; **411.** Wrigley 61.65 *8.69*; **412.** H.H. Robertson (36.64) *14.54*; **413.** Ceco Ind. 46.75 *16.52*; **414.** AM Int'l *(2.12)*; **416.** Nortek (0.32) *22.60*; **418.** Bausch & Lomb 28.35 *18.83*; **419.** Illinois Tool Works 26.52 *15.93*; **420.** Warnaco 77.03 *26.22*; **421.** Snap-on Tools 24.14 *13.60*; **423.** Phillips-Van Heusen 28.04 *28.67*; **424.** Kellwood 94.95 *20.81*; **425.** Fieldcrest 17.26 *16.51*; **426.** Moore McCormack 21.49 *10.16*; **427.** Westmoreland Coal 19.60 *(4.24)*; **428.** Media Gen'l 24.08 *21.78*; **429.** Foxboro (10.67) *11.11*; **430.** Roper 13.25 *21.61*; **431.** Tracor (4.58) *35.87*; **432.** Rorer Grp. 46.30 *15.31*; **433.** Oxford 49.63 *26.90*; **435.** Carpenter Tech. (9.54) *18.42*.

436. Handy & Harman 17.24 *21.47*; **437.** Liz Claiborne 91.69; **439.** Cameron Iron Works 3.92 *4.25*; **441.** Liquid Air 37.41 *7.42*; **443.** No. Amer. Coal 46.96 *18.16*; **444.** Pittway 15.55 *13.27*; **445.** Easco 2.78 *8.16*; **447.** Boimco 2.10 *38.05*; **449.** Pentair 37.74 *42.49*; **450.** Nerco 13.93 *42.49*; **451.** Dorsey 71.03 *24.67*; **453.** Jostens 34.18 *27.91*; **454.** Sybron 10.97 *8.10*; **455.** Cooper Tire 14.15 *29.50*; **456.** Harvey Hubbell 42.08 *22.44*; **457.** Manhattan Ind. 11.18 *19.64*; **458.** Datapoint (57.96) *3.78*; **459.** Shaw Ind. 45.32 *25.03*; **461.** Hillenbrand 30.32 *22.55*; **462.** Todd Shipyards (6.32) *24.72*; **464.** Ametek 19.32 *24.26*; **465.** Loral 41.79 *34.95*; **466.** Int'l Flavors & Frag. 49.40 *3.94*; **467.** Butler Mfg. 32.64 *13.76*; **469.** Herman Miller 3.02 *49.75*; **470.** Universal Foods 31.27 *20.63*; **472.** Stanadyne 43.33 *21.95*; **473.** Harnischfeger *2.01*; **474.** Carlisle 4.30 *33.65*; **475.** Leggett & Platt 79.91 *33.30*.

476. U.S. Tobacco (4.98) *24.32*; **477.** Meredith 25.70 *38.72*; **478.** Hon Ind. 86.97 *26.31*; **479.** Dataproducts 8.76 *22.96*; **480.** Barnes Grp. 31.73 *18.91*; **481.** Gifford-Hill (20.18) *17.16*; **482.** C.R. Bard 98.64 *19.14*; **484.** Philips Ind. 60.73 *36.83*; **485.** Amer. Bakeries *14.17*; **486.** Ampco-Pittsburgh (9.68) *12.26*; **487.** Longview Fibre 35.21 *13.54*; **489.** H.B. Fuller 24.70 *24.45*; **490.** Trinity Ind. (6.97) *20.50*; **491.** Chesapeake 19.90 *17.02*; **492.** Commerce Clearing House 52.09 *26.10*; **493.** Coleman 22.79 *14.48*; **495.** Standard Register 63.13 *36.53*; **496.** Lancaster Colony 19.77 *20.76*; **497.** Scientific-Atlanta 10.49 *20.82*; **498.** S.S. Pierce *44.90*; **499.** Amer. Maize-Prod. (8.76) *4.99*; **500.** Winnebago (18.11) *9.39*.

HOW TO KEEP OPEC ON ITS BACK

Worries that cheap oil will make the U.S. too dependent on imports are fueling support for a tariff. But that would hobble the economy, boost inflation, and destroy jobs. Better ideas: lift price controls on natural gas and promote exploration. ■ *by Peter Nulty*

WITH GASOLINE PRICES averaging well below $1 a gallon, tanking up at the pumps leaves many an American motorist with a sense of well-being he hasn't felt in years. Nevertheless, a lot of people worry that the bad consequences of low-cost oil might outweigh the good. An opinion poll in April found that 60% of the public fears that cheap oil could so damage the U.S. petroleum industry that it would leave the country dangerously dependent on imports. More than half said they favor a tax on imported oil. A tariff would produce double benefits: it would help home-pumped oil compete with imported crude and raise billions for the impoverished national treasury.

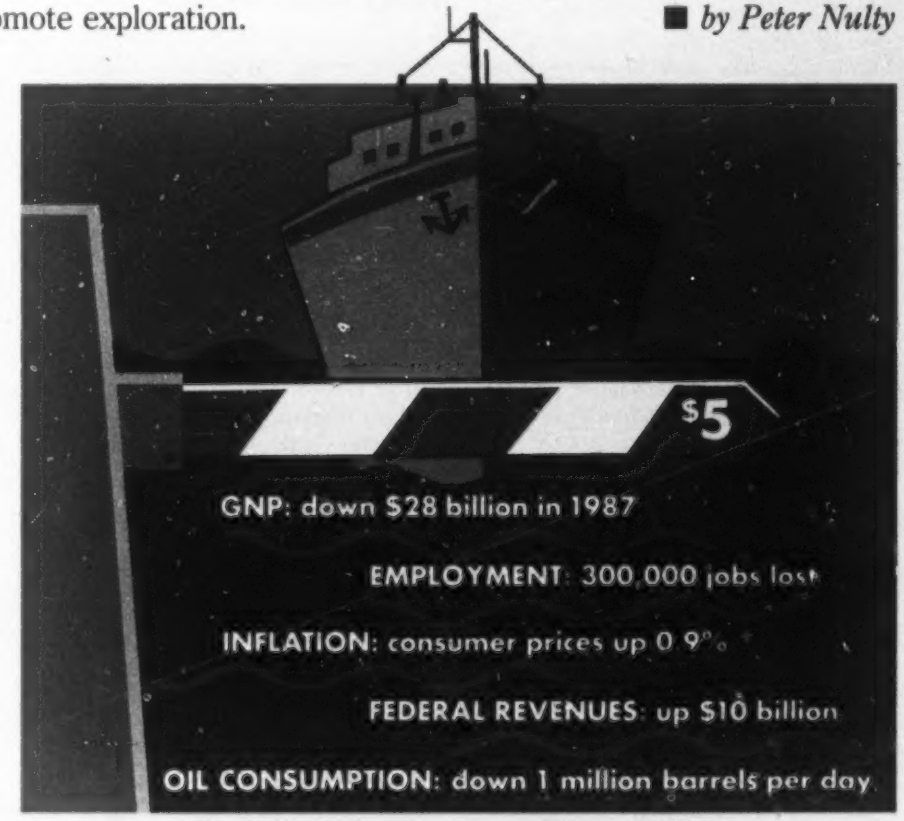
Fear is understandable. Memories are fresh of the Arab oil embargo, ever-spiraling prices, and interminable lines at the gas pumps. No one wants his economic well-being or national security held hostage by a foreign power. But the benefits of cheap oil are nothing to sneeze at either. So what policy makes sense?

Plenty of proposals are floating about, the most popular being to slap a tax of $5 or $10 a barrel on imported oil. An import tax would let U.S. oil producers raise prices by the amount of the tax and make America's high-cost wells profitable. That would cut demand for imports by keeping in operation more than 400,000 so-called stripper wells, each pumping a measly ten barrels a day or less but totaling 8% of the oil used in the U.S.

For the moment an import tax looks like a nonstarter in Washington. Though the proposal has the support of some important Republicans, including Pete Domenici, chairman of the Senate Budget Committee, the Reagan Administration is dead set against any tax increases. However, the pressure for an import tax could become irresistible if oil prices do not rebound soon. Many oil experts predict that Saudi Arabia or OPEC as a whole will cut production enough to push prices back up to $20 a barrel or so by late summer. If those predictions prove false and prices stay down, says a Washington energy consultant, "Texas will go bonkers."

The import tax sounds simple and, with the price of crude way down, relatively painless. In operation, however, it probably would prove wondrously complex and more costly than proponents claim. At the same time, the dangers of increasing dependence on OPEC seem vastly overblown. The warnings come mostly from people who have a vested interest in the domestic oil industry or are philosophically predisposed to government's playing a large role in energy.

continued


$5
GNP: down $28 billion in 1987
EMPLOYMENT: 300,000 jobs lost
INFLATION: consumer prices up 0.9%
FEDERAL REVENUES: up $10 billion
OIL CONSUMPTION: down 1 million barrels per day

An Import Fee That Taxes More Than Oil

A $5-per-barrel tax on imported oil would produce the consequences above in 1987, according to the Congressional Research Service of the Library of Congress. Because economic growth would slow, the budget deficit would fall by less than half the $10 billion raised by the tax.

RESEARCH ASSOCIATE *Alicia Hills Moore*

ILLUSTRATION BY JOHN PIRMAN

At bottom the tax would preserve jobs—and profits—in the oil industry at the cost of fewer jobs in other industries, slower economic growth, and faster inflation. The Congressional Research Service estimates that a $5-per-barrel tax on imported oil would reduce economic output by about $28 billion next year, add nearly a full percentage point to the inflation rate, and eliminate 300,000 jobs (net of jobs saved in the oil industry).

The import tax is a woefully inefficient way to raise federal revenues. Data Resources Inc., an economic forecasting firm, estimates that the budget deficit would decline by only 25 cents for each dollar in oil import taxes. The other 75 cents would be offset by higher federal energy expenses and lower income tax payments resulting from slower economic growth. An increase in the federal excise tax on gasoline would be a less disruptive way to narrow the deficit. But a gasoline tax would apply to domestic as well as imported oil and would not help U.S. producers.

Sheltering the oil industry would create havoc for other businesses. U.S. petrochemical companies would face higher costs for feedstocks than foreign competitors. The petrochemical industry almost certainly would demand relief from the tax. So would farmers, textile makers, and other heavy users of petroleum. Senator Phil Gramm, one of the few Texans in Washington who oppose the tax, points out that Canada, Mexico, and Venezuela might claim exemptions from taxes on their oil under trade treaties with the U.S. Says Lloyd Unsell, president of the Independent Petroleum Association of America: "The import fee would look like a giant sieve."

THE BENEFITS of cheap oil are considerable. Wharton Econometrics, another forecasting firm, estimates that a price drop to an average of $15 a barrel this year would reduce inflation by 1.5 percentage points, add 1.4 percentage points to economic growth, and create some 500,000 jobs, net of layoffs in the Southwest. FORTUNE believes the effects would be somewhat smaller than Wharton's estimates, but still large.

The risks of rising oil imports are harder to quantify. Keeping foreign oil out will not help the U.S. if foreign producers raise prices. Since all producers, U.S. and foreign, charge the world price for oil, the shock to the U.S. economy would be just as great as in countries that import all their oil. The government could shelter consumers with price controls on domestic oil, as it did in the Seventies, but that almost certainly would give rise to renewed shortages.

Sheltering the oil industry would create havoc for other businesses. U.S. petrochemical companies and other heavy users of petroleum almost certainly would demand relief from an import tax.

The oil world has changed radically in the past 15 years. OPEC had the power to make price increases stick in the Seventies because other oil producers could not take up the slack when the cartel reduced output. Oil prices have collapsed because non-OPEC countries have increased production mightily and OPEC could not agree to cut output enough to keep prices up.

The era of high prices brought other changes that reduce the likelihood that the cartel will regain its muscle soon. Natural gas has become a much stronger competitor to oil, and new gas discoveries have created surpluses in the U.S., Canada, the Soviet Union, and elsewhere. Some experts predict that the surplus will end soon, but they have been saying that for three years. The U.S. economy depends less on oil than it used to. Conservation has reduced oil consumption by 15% and cut oil consumed per dollar of gross national product by 33%. Whatever the effect of the Soviet nuclear disaster on U.S. public opinion, the share of electricity produced by atomic power will increase by the 1990s (see Looking Ahead).

Lower oil prices are bound to foster higher consumption. The American Petroleum Institute reports a 3.5% jump in the first quarter of this year. But much of the energy conservation of the last 15 years is built into today's more efficient manufacturing facilities and fuel-efficient autos and cannot be quickly reversed. Finally, the U.S. has 500 million barrels of oil, equal to more than three months of imports, stockpiled in the strategic petroleum reserve. OPEC accounted for 36% of U.S. imports last year and will supply a somewhat larger portion this year. The reserve would last more than six months even if OPEC united in a total embargo of the U.S.

Since competition from new oil producers and from other fuels are what broke OPEC's back, U.S. energy policy should be aimed at enhancing that competition. One way is to encourage exploration for major U.S. oil deposits. Large, highly promising federal tracts in Alaska, off the coast of California, and in the Gulf of Mexico have not been leased for exploration. Even if the tracts were opened, the federal bidding system discourages explorers. Winning bidders must make large, nonrefundable, up-front payments, called bonus bids, before they look for oil. The government could encourage more exploration by forgoing bonus bids in favor of collecting higher royalties on production.

The government also should remove the remaining shackles on natural gas. Congress is considering several proposals to do that, but they seem to stand little chance of passing this year. One would repeal the Fuel Use Act of 1978, which prohibits new industrial boilers from burning natural gas even though it has been in surplus since 1982. Another measure would deregulate the roughly 45% of U.S. natural gas production, called old gas, still under price control at the wellhead. The Department of Energy estimates that lifting the last price controls would increase the output of old gas by around 5%, lower the average price of gas by about 15%, and reduce oil imports by 8%.

With oil selling in the low teens, this would be a golden time to add to the strategic petroleum reserve. As imports increase, the cushion provided by the reserve gets thinner. The Reagan Administration has suspended purchases because, says Energy Secretary John Herrington, "the national debt has just passed $2 trillion." But it makes more sense to buy when oil is cheap, and pay the interest on a slightly higher deficit, than to wait until the cost rises.

Strengthening the competitive alternatives to OPEC oil would reinforce the lesson in free-market economics that the cartel is just learning. Indeed, anyone who fears that OPEC will leap blithely at the chance to repeat its performances of 1974 and 1979 need only look at what has happened to it since competition started driving prices down in 1981. OPEC oil revenues, which reached a high of $278 billion in 1980, could fall to $80 billion or less this year. In countries where oil revenues and GNP are nearly synonymous, that represents pain. The best restraint on OPEC will be knowledge that a dynamic energy market is at work. ■